

Message Text

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ACTION ARA-10

INFO OCT-01 AF-06 EUR-12 EA-06 NEA-09 ISO-00 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05

OMB-01 PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 /133 W

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 5477

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMCONSUL GUAYAQUIL

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

USMISSION OECD PARIS

C O N F I D E N T I A L QUITO 3177

E.O. 11652: GDS

TAGS: ECON, ENRG, EC

SUBJECT: BUILDING FINANCIAL PRESSURES

1. SUMMARY. THE GOE CAN EXPECT INCREASING FINANCIAL
DIFFICULTIES BECAUSE OF DECLINING PETROLEUM REVENUES.
FIRST QUARTER PETROLEUM REVENUES WERE APPROXIMATELY 54 PERCENT
OF PROJECTED LEVELS. THIS DECLINE WILL CONTINUE TO HALT
MAJOR NEW DEVELOPMENT PROJECTS AS THE FONADE (NATIONAL
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DEVELOPMENT FUND) ACCOUNT IS RAIDED TO COVER THE CENTRAL

GOVERNMENT BUDGET DEFICIT. 1975 CENTRAL GOVERNMENT BUDGET EXPENDITURES ARE BASED ON A PRODUCTION LEVEL OF 210,000 BARRELS A DAY; BUT FIRST QUARTER AVERAGE PRODUCTION ONLY REACHED 110,085 BARRELS DAILY. NET FOREIGN RESERVES DROPPED 14 PERCENT AS EXPORTS FELL AND IMPORTS CONTINUED TO CLIMB. IN THE FIRST QUARTER THE GOE, IN FACT, EXPERIENCED ITS FIRST CURRENT ACCOUNT DEFICIT SINCE PETROLEUM EXPLOITATION BEGAN IN 1972. END SUMMARY.

2. APPROXIMATE TOTAL PETROLEUM REVENUES FOR THE FIRST QUARTER WERE \$72 MILLION, FAR BELOW ORIGINAL PROJECTIONS OF \$160 MILLION. JANUARY PRODUCTION AVERAGED 147,000 BARRELS A DAY; PRODUCTION IN FEBRUARY ROSE TO 167,000 BPD BUT DROPPED TO A NEGLIGIBLE LEVEL OF 24,612 BPD IN MARCH WHEN THE TRANSANDIAN PIPELINE WAS OUT OF COMMISSION. FINANCE MINISTER MONCAYO EMPHASIZED APRIL 16 THE NEED FOR FISCAL AUSTERITY AND ENCOURAGED MORE COOPERATION FROM THE PRIVATE SECTOR IN INVESTMENT BUT AS YET THERE HAVE BEEN NO ANNOUNCED CUTS IN CENTRAL GOVERNMENT SPENDING. THE CENTRAL GOVERNMENT BUDGET EXPERIENCED A FIRST QUARTER SHORTFALL OF \$22 MILLION, SINCE APPROXIMATELY 26 PERCENT OF TOTAL PETROLEUM REVENUES ARE EARMARKED FOR THE CENTRAL GOVERNMENT BUDGET. THE \$628 MILLION BUDGET, AS ORIGINALLY ANNOUNCED, WAS TO BE FINANCED TO THE EXTENT OF 29 PERCENT BY \$180 MILLION OF PETROLEUM REVENUES. THE GOE HAD ALREADY INCLUDED A TRANSFER OF \$28 MILLION FROM THE FONADE ACCOUNT TO FINANCE A PROJECTED BUDGET DEFICIT, EVEN ACCEPTING THE DOUBTFUL INCREASES PROJECTED IN TRADITIONAL REVENUE SOURCES. TRANSFERS TO FINANCE THIS GROWING BUDGET DEFICIT MUST CONTINUE TO COME FROM THE FONADE ACCOUNT.

3. THE FONADE ACCOUNT ENDED IN 1974 WITH A SURPLUS OF \$41 MILLION, ALTHOUGH \$11 MILLION WAS TAKEN FROM THE ACCOUNT TO FINANCE THE 1974 CENTRAL GOVERNMENT BUDGET DEFICIT. FONADE RECEIVES APPROXIMATELY 33 PERCENT OF TOTAL PETROLEUM REVENUES AND THEREFORE RECEIVED \$24 MILLION AGAINST ITS PROJECTED FIRST QUARTER REVENUES OF \$53 MILLION. FONADE HAD RECEIVED AVERAGE QUARTERLY REVENUES OF \$35 MILLION IN 1974. THE FIRST QUARTER

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BUDGET DEFICIT OF 1975 (\$22 MILLION) AND THE ORIGINAL 1975 BUDGET DEFICIT ON A PRO-RATA QUARTERLY BASIS (\$7 MILLION) WOULD LOWER THE FIRST QUARTER FONADE ACCOUNT TO APPROXIMATELY \$24 MILLION.

4. NET FOREIGN RESERVES DECLINED \$47.5 MILLION IN THE FIRST QUARTER OF THE YEAR BECAUSE OF DECLINING PETROLEUM EXPORTS. FOREIGN RESERVES HAD PEAKED AT \$383 MILLION

IN JUNE, 1974, DROPPED TO \$339 MILLION BY THE END OF THE YEAR AND DECLINED TO \$291 MILLION BY MARCH 30, 1975. GROSS RESERVES FELL BY ONLY \$12 MILLION IN THE FIRST QUARTER AS LIABILITIES INCREASED BY OVER \$36 MILLION, MOST

* THIS INCREASE IN SHORT-TERM LIABILITIES TO FOREIGN BANKS. FOR THE FIRST TIME SINCE PETROLEUM EXPLOITATION BEGAN, IMPORTS EXCEEDED EXPORTS. IMPORTS, MEASURED BY IMPORT LICENSES UTILIZED, TOTALED \$248 MILLION (CIF) FROM JANUARY 1 THROUGH APRIL 15. IMPORTS FOR THIS PERIOD ALMOST DOUBLED THOSE OF THE SAME PERIOD OF 1974. EXPORTS (FOB) TOTALED \$218 MILLION FROM JANUARY-APRIL 15, A 30 PERCENT DECREASE FROM THE COMPARABLE 1974 PERIOD. (FINAL 1974 FIGURES WERE \$617 MILLION IN IMPORT LICENSES LIQUIDATED AND \$1.05 BILLION IN EXPORTS). SINCE THE SERVICES ACCOUNT IS CHRONICALLY IN DEFICIT, IT CAN BE ASSUMED THAT ECUADOR RAN A FIRST QUARTER CURRENT ACCOUNT DEFICIT.
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